

UNIDO's
PRE-INVESTMENT STUDIES PROGRAMME

Feasibility Studies*

Prepared by the
Feasibility Studies Section
Division of Industrial Operations

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UNIDO ACTIVITIES IN PRE-INVESTMENT STUDIES

I. INTRODUCTION

Investment, being the central ingredient of industrialization, is the dominant factor in the attainment of the Lima target. There are many factors influencing industrial investment among which domestic capacity to handle pre-investment and investment activities may be considered crucial. In many developing countries the established institutions entrusted with the responsibility to map out industrial strategy, to prepare pre-investment studies and to implement industrial projects, do lack the required and the experienced cadres to undertake these tasks. Accordingly, UNIDO has oriented its technical assistance programme to respond effectively to the needs of developing countries in these fields.

In his address to the Seventh Conference of Non-Aligned Countries held in New Delhi from 7 to 11 March 1983, the Executive Director stated: "Our main line of business is to render technical assistance bearing upon the software of industrialization, covering pre-investment activities, project preparation and evaluation, technology choices, design engineering and the macro-economic exercise of industrial planning".

II. THE PRE-INVESTMENT STUDIES PROGRAMME

This programme at UNIDO aims at achieving the important objective of building and strengthening national capacities either individually or collectively within the framework of self-reliance. This involves

- a) raising the level of local skills by introducing and demonstrating the methodology and requirements for preparing feasibility studies in a comprehensive and balanced manner;
- b) establishing the required institutional infrastructure both at national and regional levels which will identify, formulate, evaluate and select industrial projects in terms of their technical and financial feasibility as well as economic and social benefits and costs;
- c) assisting developing countries in making the proper decision for the implementation of a specific industrial investment by undertaking or supervising the preparation of the pre-investment study.

Within the present structure of UNIDO the Pre-Investment Studies Programme falls under the jurisdiction of the Division of Industrial Operations and its substantive units. To provide optimum and effective service to governments in this vital field, co-ordination of assistance within UNIDO was entrusted to the Feasibility Studies Section. It is clear that co-ordination would lead to better utilization of resources and would improve the quality and the responsiveness of the pre-investment studies programme. This measure was also intended to enhance the linkage between pre-investment activities and investment. In addition to its co-ordination role, the Section responds to government requests in a variety of modes as explained below.

1. Assistance in Project Identification, Preparation and Evaluation

Pre-investment studies have to be well prepared in order to:

- a) avoid wasting domestic resources,
- b) enable governments to reach rational decisions,
and
- c) attract external and internal financing.

Project preparation and evaluation is based on the Manual for the Preparation of Industrial Feasibility Studies which was published by UNIDO in 1978 and which has received wide acceptance. The Manual offers a single format and set of procedures which could be applied to a wide spectrum of industrial projects.

As project planning is an interdisciplinary task requiring a team of engineers, economists, social scientists, businessmen and governmental administrators, the Manual is aimed at readers with different educational backgrounds and professional experiences from both developing and developed countries. The Manual is practical in approach; it aims to put the various feasibility studies into a similar framework with a view to making them easily comparable. Industrial development centres, industrial development banks and public and private consulting firms in developing countries should benefit especially from the Manual. The numerous individual experts assigned to project planning authorities in developing countries should also be able to take advantage of it.

The Manual is available in English, French, Spanish, Russian, Chinese, Turkish, German, Dahri, Hungarian and Czech, and is being translated into Arabic, Polish and Burmese. Some 65,000 copies have been printed in all these languages, and most of these copies have been distributed.

UNIDO has a long experience in the preparation and evaluation of pre-investment studies and will continue to respond to government requests for such assistance. The studies supervised by UNIDO are prepared with impartiality, confidentiality and highest standards and at reasonable cost. Moreover, UNIDO tries to involve local staff in the preparation in order to acquaint them with the methodology and concepts. Also an effort is usually made to recruit experts or consulting firms from developing countries to undertake the assignment where appropriate. Finally, in the case of viable projects UNIDO is also assisting in locating financing institutions and partners, and in all aspects of negotiations and contractual arrangements.

2. Assistance in the Application of the Computer Model for Feasibility Analysis and Reporting (COMFAR)

In view of the wide application of the Manual for the Preparation of Industrial Feasibility Studies, UNIDO has developed a Computer Model for Feasibility Analysis and Reporting (COMFAR). The purpose of the COMFAR software is to enable experts, consultants, consulting firms and UNIDO staff as well as international and national institutions active in the preparation, evaluation and financing of industrial investment projects to facilitate and accelerate the computations required for the preparation and evaluation of financial statements, financial ratios, and rates of return for pre-feasibility and feasibility studies. COMFAR is also a further step towards standardization of pre-investment studies, as strongly recommended by UNIDO's First Consultation on Industrial Financing, held in Madrid in October 1982.

The comparative advantages of COMFAR, implemented on a personal computer, are inter alia: easy access to the computer, a sophisticated but still very flexible financial model, the dialogue system that guides the user through all

operations and includes an input error check and warning system. Computer power allows repeated computations to analyse sensitivity risks involved and to approach optimal project alternatives. The report generation system prints the result tables ready for presentation in project reports.

In order to assist countries to obtain and apply the COMFAR software, UNIDO developed a training programme. For the success of the training programme, it is indispensable that nationals should have the requisite background including thorough knowledge of the UNIDO Manual for the Preparation of Industrial Feasibility Studies. The hardware consisting of a personal computer and related accessories may be obtained through UNIDO or directly by the client.

A brochure giving full details of this Computer Programme had been published recently by the Feasibility Studies Section.

3. Assistance to Strengthen National Capacities in Pre-investment Studies and Investment Follow-up

The setting up of Industrial Advisory Units attached to the appropriate substantive ministry, agency or industrial development bank is an indispensable condition to expand national capacities and strengthen capabilities for the identification, preparation, evaluation and selection of optimum investment projects. The setting up of a national industrial advisory service is a desirable step to be taken by each developing country even though it will take some time to build its capacity fully. It consists of a nucleus of local specialists which may be complemented by drawing on international experts.

UNIDO has been assisting developing countries in setting up an advisory service or a projects planning unit which is tailored to the country's particular needs. Such assistance takes the form of a team of experts composed of an industrial economist (team leader), market and financial analysts, a mechanical engineer and other engineers whose specializations will be determined by the industrial branch to be covered. It is obvious that this type of assistance will enable countries to undertake pre-investment studies themselves and will provide on-the-job training and will lay the foundation for a permanent institutional mechanism.

There is a case for this kind of service to be set up on a regional basis as well to serve a number of neighbouring countries. The regional facility could undertake consultancy and advisory services at the request of member countries for a fee and in some cases free of charge, depending on the financial ability of the beneficiary country. It could also undertake training activities and encourage the formation and strengthening of counterpart local units in the member countries with which it would maintain a working relationship aimed at decentralising certain functions and activities. An additional merit of a regional organization is that it could serve to promote regional industrial planning and co-operation.

A brochure is available outlining details of the type of assistance to be provided by UNIDO to set up Industrial Advisory Units.

4. Assistance to Upgrade National Capabilities in Pre-investment Studies and Investment Follow-up

The shortage of trained manpower in many developing countries has been a major handicap in the preparation of pre-investment studies. This poses a serious constraint to the process of industrialization and consequently to the attainment of the Lima target. It has been clearly recognized that the ability of a country to raise its rate of industrial investment depends on its capacity to design and promote viable projects. In the long run, training policies should aim at achieving self-sufficiency in meeting training requirements preferably at the national level. For the short run, co-operation among developing countries as well as international co-operation in this domain is a necessary option.

In response to the acute needs of developing countries for up-grading of skills in the preparation of pre-investment studies, UNIDO has been organizing programmes at the national, regional and interregional levels during the past 15 years. These programmes are designed to provide economists and engineers in a relatively short time (from 2 to 8 weeks) with the necessary knowledge, both theoretical and practical, in advanced methods and techniques of project preparation, evaluation, financing and promotion.

The seminar is conducted by a team of consultants and the Manual for the Preparation of Industrial Feasibility Studies is among the basic teaching materials used together with the computer supplement COMFAR.

On-the-job training is an integral part of the assistance provided to national institutions engaged in pre-investment studies under the Advisory Unit programme mentioned above. For countries whose capacity for handling pre-investment studies is still inadequate, the services of experts over an extended period are indispensable for building such capability and filling immediate needs.

A brochure is available outlining the seminar programme and giving details about the lectures, duration and contents.

5. Assistance to Least Developed Countries Provided by the Interregional Adviser in Pre-investment Studies

The services of the Interregional Adviser in Pre-investment Studies is made available to Least Developed Countries because of their dire need for such assistance. In brief, the Adviser will advise and assist the least developed countries through short-term missions as follows: in the identification, selection and development of potential investment projects with a view to bringing them to a bankable stage; in the setting up and in strengthening national industrial advisory units; in the seminar programme; and in investment follow-up.

Co-operation and co-ordination between the Interregional Adviser and the staff at UNIDO headquarters are to be maintained in order to give support to his activities and to enhance follow-up where necessary.

III. OTHER SERVICES PROVIDED

1. Investment Follow-up

In April 1981 UNIDO signed the Co-operative Arrangement on Investment Follow-up with the United Nations Development Programme under which provision will be made to update existing studies and to provide funding for investment

follow up. The Feasibility Studies Section was assigned as focal point for this co-operative arrangement.

2. Assistance with Negotiations

Upon completion of a feasibility study, a decision to proceed with the project entails negotiations concerning finance, technology and management, contracts, marketing arrangements, tendering procedures and engineering supervision. In collaboration with other sections in UNIDO, the Feasibility Studies Section can provide technical assistance in all aspects of negotiations and contractual project work.

3. Industrial Project Preparation Facility

This new programme is intended to facilitate the preparation of industrial projects by setting up multidisciplinary teams to visit the least developed countries, in particular, and help them prepare and evaluate feasibility studies. The provision of special purpose financing to the United Nations Industrial Development Fund in order to finance pre-investment studies in least developed countries is currently being negotiated.

4. Establishment of an Industrial Project Evaluation Service at UNIDO

The Computer Model for Feasibility Analysis and Reporting (COMFAR) enables UNIDO to extend its Project Evaluation Service in developing countries. Such a service could be used to obtain a neutral assessment of previous project studies prepared by consultants or suppliers of equipment.

5. Work of Methodology

Since its inception UNIDO has undertaken or sponsored work to develop an appropriate and practical methodology for the preparation and evaluation of industrial projects. The results of this supporting activity have been made available to member countries through publications and workshops as well as by experts or consultants who provide technical assistance. The main reference publications which are available in several languages, are:

- * Manual for the Preparation of Industrial Feasibility Studies: covers project preparation and financial evaluation (ID/206), available in Chinese, Czech, Dahri, English, French, German, Hungarian, Russian, Spanish and Turkish. Burmese, Polish and Arabic under preparation.
- * Guidelines for Project Evaluation (ID/SER.H/2) and Guide to Practical Project Appraisal (ID/SER.H/3) deal with socio-economic evaluation, available in English, French and Spanish.
- * Manual for Evaluation of Industrial Projects (ID/244): presents a methodology based on national value-added concepts and is applicable to all developing countries. Available in English, French and Spanish.

IV. HOW TO APPLY

Government authorities should direct all requests for UNIDO assistance to the Resident Representative of the United Nations Development Programme (UNDP). UNIDO is represented in a number of countries by a Senior Industrial Development Field Adviser (SIDFA). The staff of the UNDP Resident Representative's Office and the SIDFA will be in a position to explain in detail the procedures to be followed.

The UNDP Office usually has to agree to the source of finance before requests are made. In addition to UNDP financing, UNIDO has its own source of funds which can be made available for activities such as training workshops, short-term consultants and fellowships/study tours.

In all cases it is advisable to initiate a request well in advance. Further information can be obtain from:

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